

Notes to the reviewed condensed consolidated interim financial report

1. Corporate information

Kumba is a limited liability company incorporated and domiciled in South Africa. The main business of Kumba, its subsidiaries, joint ventures and associates is the exploration, extraction, beneficiation, marketing, sale and shipping of iron ore. The group has its primary listing on the JSE Limited.

The reviewed condensed consolidated interim financial report of Kumba and its subsidiaries for the six months ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 21 July 2010.

2. Basis of preparation and accounting policies

The reviewed condensed consolidated interim financial report for the six months ended 30 June 2010 has been prepared in compliance with the South African Companies Act No 61 of 1973, as amended, the Listings Requirements of the JSE Limited and International Accounting Standard 34, 'Interim Financial Reporting' and the AC500 standards as issued by the Accounting Practices Board. The reviewed condensed consolidated interim financial report should be read in conjunction with the audited consolidated annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with International Financial Reporting Standards ('IFRS').

The reviewed condensed consolidated interim financial report has been prepared in accordance with the historical cost convention except for certain financial instruments, share-based payments and biological assets which are stated at fair value, and is presented in Rand, which is Kumba's functional and presentation currency.

Except as disclosed below, the accounting policies and methods of computation applied in the preparation of the reviewed condensed consolidated interim financial report are consistent with those applied for the year ended 31 December 2009.

The group adopted the following amendments to existing standards with effect from 1 January 2010.

IFRS 2, Share-based Payment (amendment)

In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and Treasury Share Transactions' into the standard, the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The amended standard provides that an entity receiving goods or services in a share-based payment transaction that is settled by any other entity in the group or any shareholder of such an entity in cash or other assets is now required to recognise the goods or services received in its financial statements.

The amendment does not affect the classification of share-based payments in the consolidated financial statements, but has an impact on the classification of share-based payments in the stand-alone accounts of Kumba's subsidiary, Sishen Iron Ore Company (Pty) Limited, with a consequential impact on the non-controlling interest reported in the consolidated financial statements.

The amendments to the standard have been applied retrospectively to all employee share incentive schemes outstanding at the reporting date. The effect on earnings and headline earnings per share is an increase of 1.3 cents and 0.2 cents for the six months ended 30 June 2010 and 2009 respectively and an increase in headline earnings per share of 5.2 cents for the year ended 31 December 2009.

The effect on earnings and equity is disclosed in the table below:

Rm	Reviewed 6 months 30 June 2010	Restated 6 months 30 June 2009	Restated 12 months 31 December 2009
Decrease in earnings attributable to non-controlling interest for the period	4	1	17
Increase in earnings attributable to the owners of Kumba for the period	4	1	17
Cumulative decrease in total non-controlling interest disclosed in equity	36	7	26
Cumulative increase in equity-settled share-based payment reserve disclosed in equity	16	7	10
Cumulative increase in retained earnings disclosed in equity	20	–	16
Increase in opening non-controlling interest disclosed in equity	–	1	1
Decrease in opening retained earnings disclosed in equity	–	1	1

Annual Improvements Project 2008 and 2009

As part of its annual improvements project, the International Accounting Standards Board ('IASB') issued a single amendment in 2008 and 15 amendments in 2009 to various issued accounting standards, effective for the reporting period commencing 1 January 2010. These amendments consist of various necessary, but non-urgent, amendments to issued accounting standards and interpretations that will not be part of another major project of the IASB. Kumba adopted these amendments in 2010, the application of which has not had an effect on the reported results, with the exception of the amendment to IAS 7, 'Statement of Cash Flows'.

IAS 7, Statement of Cash Flows (amendment)

The guidance provided in IAS 7 has been amended to clarify that only expenditure that results in a recognised asset in the balance sheet can be classified as a cash flow from investing activities. This amendment is effective prospectively for the reporting period commencing 1 January 2010.

Consequently, to the extent that no corresponding asset(s) has been recognised, the translation effects of cash flows of foreign operations previously disclosed in the line item 'Other' as part of cash flows from investing activities in the group cash flow statement, has been reallocated to cash flows from operating activities as well as to the new line item 'Effects of exchange rates on cash and cash equivalents' included on the face of the group cash flow statement for the six months ended 30 June 2010.

Early adoption of new standards, amendments and interpretations

The accounting standards, amendments to issued accounting standards and interpretations, which are relevant to the group, but not yet effective at 30 June 2010, have not been adopted. The group is currently evaluating the impact of these pronouncements.

3. Property, plant and equipment

The group incurred capital expenditure on property, plant and equipment of R1.5 billion for the six months ended 30 June 2010 (2009: R1.5 billion).

R1.2 billion (2009: R1.2 billion) was incurred for the expansion of its operations, mainly on the development of Kolomela Mine, and R233 million (2009: R348 million) to maintain its operations, mainly for the acquisition of mining equipment for Sishen Mine. A total of R521 million (2009: R1.3 billion) was transferred from assets under construction to machinery, plant and equipment during the period as these assets were brought into production.

4. Share capital

The group acquired 295 478 (2009: 301 603) of its own shares through purchases on the JSE Limited during the period. The total amount paid to acquire the shares was R103 million (2009: R53 million). The shares are held as treasury shares and the purchase consideration has been deducted from equity.

237 451 (2009: 293 359) of these shares have been allocated as conditional share awards under the Kumba Bonus Share Plan. 43 322 (2009: 'nil' shares) of these shares were utilised to redeem conditional awards and share appreciation rights that have vested under the Long Term Incentive Plan and Share Appreciation Rights Scheme.

On 19 February 2010 Kumba issued 1 130 300 shares (2009: 'nil' shares) to the Management Share Option Scheme. Options exercised under the Management Share Option Scheme during the period ended 30 June 2010 resulted in 1 137 680 shares being issued (2009: 1 333 740 shares) with exercise proceeds of R56 million (2009: R65 million).

5. Interest-bearing borrowings

Rm	Reviewed 6 months 30 June 2010	Restated 6 months 30 June 2009	Restated 12 months 31 December 2009
Kumba's net debt position at balance sheet dates was as follows:			
Long-term interest-bearing borrowings	3 182	2 678	3 859
Short-term interest-bearing borrowings	–	2 862	55
Total	3 182	5 540	3 914
Cash and cash equivalents	(2 264)	(5 157)	(891)
Net debt	918	383	3 023
Total equity	14 193	7 387	8 956
Interest cover (times)	53	51	43
Movements in interest-bearing borrowings are analysed as follows:			
Opening balance as at 1 January	3 914	3 858	3 858
Debt raised	1 712	1 700	2 881
Repayment of borrowings	(2 444)	(18)	(2 825)
Closing balance	3 182	5 540	3 914

At 30 June 2010 R3.2 billion of the total R8.6 billion term debt facilities have been drawn down to finance Kumba's expansion.

As a result of the strong cash flow generation of the group due to higher prices and sales volumes, Kumba was able to repay R700 million drawn down against its R5.4 billion term debt facility outstanding at 31 December 2009 during the current period. Kumba was not in breach of any of its covenants during the period. The group had undrawn short- and long-term borrowing facilities at 30 June 2010 of R6.3 billion.

6. Significant items included in operating profit

Rm	Reviewed 6 months 30 June 2010	Reviewed 6 months 30 June 2009	Audited 12 months 31 December 2009
Operating expenses is made up as follows:			
Production costs	3 109	2 581	5 601
Movement in inventories	(27)	(111)	(600)
Finished products	85	(117)	(440)
Work-in-progress	(112)	6	(160)
Cost of goods sold	3 082	2 470	5 001
Mining royalty	546	–	–
Selling and distribution costs	1 604	1 468	2 838
Cost of services rendered – shipping	1 392	1 234	2 697
Sublease rent received	(5)	(6)	(8)
Operating expenditure	6 619	5 166	10 528
Operating profit has been derived after taking into account the following items:			
Employee expenses	996	786	1 672
Share-based payment expenses	106	68	142
Depreciation of property, plant and equipment	369	205	530
Net loss/(profit) on disposal and scrapping of property, plant and equipment	2	(22)	(35)
Net loss on disposal of investment	2	–	–
Finance gains	(297)	(97)	(329)
Gains on derivative financial instruments	(161)	(491)	(736)
Foreign currency (gains)/losses	(136)	394	407
Operating expenses capitalised	(226)	(32)	(181)

7. Income taxes

The income tax expense is recognised based on management's best estimate of the effective annual income tax rate expected for the full financial year. The estimated effective annual tax rate (excluding Secondary Taxation on Companies) used for the year to 31 December 2010 is 24.2% (2009: 27.5%).

8. Segmental reporting

The Kumba executive committee considers the business principally according to the nature of the products and services provided, with the identified segments each representing a strategic business unit.

The total reported segment revenue comprises revenue from external customers as the group does not have any inter-segment revenue and is measured in a manner consistent with that disclosed in the income statement.

The performance of the operating segments are assessed based on a measure of earnings before interest and tax ('EBIT'), which is consistent with 'Operating profit' in the financial statements. Finance income and finance costs are not allocated to segments, as this type of activity is managed on a central group basis.

Total segment assets comprise finished goods inventory only, which is allocated based on the operations of the segment and the physical location of the asset.

'Other segments' comprise corporate, administration and other expenditure not allocated to the reported segments.

Rm	Sishen Mine	Thabazimbi Mine	Shipping operations	Total
Period ended 30 June 2010				
Revenue (from external customers)	15 927	260	1 639	17 826
EBIT	11 218	–	247	11 465
Total segment assets	616	265	–	881
Period ended 30 June 2009				
Revenue (from external customers)	10 175	267	1 545	11 987
EBIT	6 718	6	305	7 029
Total segment assets	477	132	–	609
Year ended 31 December 2009				
Revenue (from external customers)	19 473	543	3 392	23 408
EBIT	12 677	44	675	13 396
Total segment assets	724	240	–	964

Rm	Reviewed 6 months 30 June 2010	Reviewed 6 months 30 June 2009	Audited 12 months 31 December 2009
Reconciliation of EBIT to total profit before taxation			
EBIT for reportable segments	11 465	7 029	13 396
Other segments	(258)	(208)	(516)
Operating profit	11 207	6 821	12 880
Net finance costs	(66)	(73)	(127)
Profit before taxation	11 141	6 748	12 753
Revenue from external customers analysed by goods and services			
Sale of products *	16 187	10 442	20 016
Shipping services	1 639	1 545	3 392
Total revenue	17 826	11 987	23 408

* Derived from mining, extraction, production and selling of iron ore.

Geographical analysis

Kumba is domiciled in South Africa. The result of its revenue from external customers disclosed on a geographical basis, is set out below:

Rm	Reviewed 6 months 30 June 2010	Reviewed 6 months 30 June 2009	Audited 12 months 31 December 2009
Total revenue from external customers			
South Africa	798	622	1 359
Export	17 028	11 365	22 049
Europe	2 963	520	2 151
China	11 974	9 115	16 770
Rest of Asia	2 091	1 730	3 128
	17 826	11 987	23 408

9. Related party transactions

During the six months, Kumba, in the ordinary course of business, entered into various sale and purchase transactions with associates, joint ventures and its holding company. These transactions were subject to terms that are no less favourable than those offered by third parties.

10. Contingent liabilities

During January 2010 SIOC issued financial guarantees to the Department of Mineral Resources ('DMR') to the value of R567 million in respect of the environmental rehabilitation and decommissioning obligations of Sishen Mine.

The Taxation Laws Amendment Bill, released by National Treasury on 10 May 2010 for comment, propose changes to the Mineral and Petroleum Resource Royalties Act No. 28 of 2008. If the proposed amendments are enacted as they are currently drafted, the mineral royalty payable by Kumba for the six months ended 30 June 2010 could increase.

There have been no other significant changes in the contingent liabilities disclosed at 31 December 2009.

11. Legal proceedings
Sishen Supply Agreement arbitration

SIOC notified ArcelorMittal on 5 February 2010, that it was no longer entitled to receive 6.25Mtpa of iron ore contract mined by SIOC at cost plus 3% from Sishen Mine, as a result of the fact that ArcelorMittal had failed to convert its old order mining rights. This contract mining agreement, concluded in 2001, was premised on ArcelorMittal owning an undivided 21.4% interest in the mineral rights of Sishen Mine and as a result of ArcelorMittal's failure to convert its old order mining right, accordingly the contract mining agreement became inoperative in its entirety as of 1 May 2009.

As a result, a dispute arose between SIOC and ArcelorMittal as to whether the contract mining agreement became inoperative, which SIOC has referred to arbitration. SIOC served its statement of claim on 19 April 2010. SIOC has continued to supply ArcelorMittal with iron ore from Sishen Mine and has invoiced ArcelorMittal for the delivery of 1.45Mt of iron ore since March 2010 at commercial prices. Kumba has accounted for revenue at cost plus 3% in preparing the financial results for the period ended 30 June 2010 with the difference reflected as a contingent asset.

SIOC are engaged with ArcelorMittal in extensive negotiations to agree on an interim pricing arrangement pending the outcome of the arbitration. In the absence of ArcelorMittal agreeing on an interim pricing arrangement, SIOC will only load trains destined for ArcelorMittal effective 1 August 2010 on condition that, at least 48 hours before the intended loading, payment for that consignment and the accumulated amounts due for iron ore delivered is paid in full.

21.4% undivided share of the Sishen Mine mineral rights

After ArcelorMittal failed to convert its old order rights, SIOC applied for the residual 21.4% mining right previously held by ArcelorMittal and its application was accepted by the DMR on 4 May 2009. A competing application for a prospecting right over the same area was also accepted by the DMR. SIOC objected to this acceptance. Notwithstanding this objection, a prospecting right over the 21.4% interest was granted by the DMR to Imperial Crown Trading 289 (Pty) Limited ('ICT'). SIOC has lodged an appeal against the grant of the prospecting right by the DMR. This appeal process remains ongoing.

In addition, SIOC initiated a review application in the North Gauteng High Court on 21 May 2010 in relation to the decision of the DMR to grant a prospecting right to ICT.

Lithos Corporation (Pty) Limited ('Lithos')

Lithos is claiming US\$421 million from Kumba for damages in relation to the Falémé project in Senegal. Kumba continues to defend the merits of the claim and is of the view, and has been so advised, that the basis of the claim and the quantification thereof is fundamentally flawed. The trial date has been postponed indefinitely. No liability has been recognised for this litigation.

La Société des Mines de Fer du Sénégal Oriental ('Miferso')

The group initiated arbitration proceedings against Miferso and the Republic of Senegal under the Rules of Arbitration of the International Chamber of Commerce. The arbitration remains confidential in nature.

12. Post-balance sheet date events

The directors are not aware of any other matter or circumstance arising since the end of the period and up to the date of this report, not otherwise dealt with in this report.

13. Corporate governance

The group subscribes to the Code of Good Corporate Practices and Conduct as contained in the King II and King III reports on corporate governance. The Board is currently in the process of implementing the recommendations of the King III report. The Board has satisfied itself that Kumba has complied throughout the period under review in all material aspects with these codes.

14. Independent review opinion

The group's auditors, Deloitte & Touche, has issued their unmodified review opinion on the condensed consolidated interim financial report for the six months ended 30 June 2010. Their review was conducted in accordance with International Standards on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity.' A copy of their unmodified review report is available for inspection at the company's registered office.

On behalf of the Board

PL Zim
Chairman

Cl Griffith
Chief Executive Officer

21 July 2010
Pretoria